

CITY OF SAN DIEGO, CALIFORNIA  
**COUNCIL POLICY**

CURRENT

SUBJECT: RESERVE POLICY

POLICY NO.: 100-20

EFFECTIVE DATE: July 17, 2014

BACKGROUND:

A key attribute of a financially stable organization is appropriate reserves. Strong reserves position an organization to weather significant economic downturns more effectively, manage the consequences of outside agency actions that may result in revenue reductions, and address unexpected emergencies, such as natural disasters, catastrophic events caused by human activity, or excessive liabilities or legal judgments against the organization. In concert with the budgetary and fiscal policies adopted by the City Council, including “Structural Budget Deficit Elimination Guiding Principles” (R-305615), “City Council Budget Policy 000-02” and the “Mid-Year Budget Authority Ordinance” (O-20084), the City’s Reserve Policy serves as the policy framework to deploy City resources to meet the City’s financial commitments and address unexpected future events in a fiscally prudent manner.

PURPOSE:

The City’s Reserve Policy documents the City’s approach to establishing and maintaining strong reserves across the spectrum of City operations, including General Fund, risk management and enterprise operations. The policy is designed to:

- Identify City operations and functions for which reserves should be established and maintained, considering risks to the operation from unexpected events and the availability of other resources to address such events, and the volatility of expenditures and revenues of the operation;
- Establish target reserve levels and the methodology for calculating reserve levels;
- Provide a time-frame for meeting reserve targets, using a phased approach where necessary so that reserve goals are balanced appropriately with current budget availability; and
- Establish criteria for the use of reserves and the process to replenish reserves.

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RESERVE POLICY:

**General Fund Reserve Policy:**

The General Fund<sup>1</sup> is the main operating fund that pays for general services provided by the City, such as public safety, parks, and library services. The General Fund accounts for all general revenues of the City not specifically levied or collected for other City funds and for expenditures related to the delivery of the City's general services.

The General Fund Reserve Policy incorporates the requirements of the City Charter and is consistent with the City Council policies regarding the use of one-time and ongoing sources of revenue to fund City services.

The City's General Fund Reserves shall be comprised of two separate Reserves. These Reserves will be considered together when calculating the total General Fund Reserve balance.

***Emergency Reserve***

An Emergency Reserve will be maintained for the purpose of sustaining General Fund operations in the case of a public emergency such as a natural disaster or other unforeseen catastrophic event. The Emergency Reserve will not be accessed to meet operating shortfalls or to fund new programs or personnel. This reserve may be expended only if an event is determined to be a public emergency by a two-thirds vote of the City Council, when such expenditures are necessary to ensure the safety of the City's residents and their property. In the event this reserve is reduced below the amount established by this policy, the Mayor shall prepare a plan as promptly as conditions warrant to replenish the Emergency Reserve balance to the policy level.

***Stability Reserve***

A Stability Reserve will be maintained to mitigate financial and service delivery risk due to unexpected revenue shortfalls or unanticipated critical expenditures. The purpose of this reserve is to provide budgetary stabilization and not serve as an alternative funding source for new programs. Recommendations to appropriate from the Stability Reserve will be brought forward by the Mayor and will require approval by a majority of the City Council. In the event this reserve is reduced below the amount established by this policy, the Mayor shall prepare a plan as promptly as conditions warrant to replenish the Stability Reserve balance to the policy level.

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<sup>1</sup> For the purpose of this policy, the General Fund is the operational fund as presented in the City's annual budget document. Financial statements prepared on a GAAP basis include these funds, as well as other funds that do not meet the criteria to be classified as special revenue, capital project, or debt service funds, pursuant to Government Accounting Standards Board (GASB) Statement No. 54.

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***General Fund Reserve Calculation and Measurement***

Total General Fund Reserves consist of the total of the Emergency Reserve and the Stability Reserve. The target level for total General Fund Reserves shall be 14% of the most recent three-year average of annual audited General Fund operating revenues<sup>1</sup>. The Emergency Reserve shall be set at a target level of 8%, and the Stability Reserve shall be set at a target level of 6%.

***Excess Equity***

Excess Equity is spendable and unrestricted fund balance that is not otherwise assigned to General Fund Reserves and is available for appropriation. Excess Equity is most commonly a non-recurring source of revenue. Consistent with City Council Budget Policy (Policy No. 000-02) and the use of one-time and ongoing revenues, Excess Equity will be appropriated primarily for unanticipated circumstances, such as a General Fund revenue shortfall affecting programs included in the current year budget or for one-time priority expenditures. Recommendations for the use of Excess Equity may be brought forward by the Mayor and will require approval by a majority of the City Council.

The Quarterly Budget Monitoring Reports provide an estimate of Excess Equity based on the projected activity from operations during the fiscal year; however, unrestricted fund balance is not determined until the City closes its books as of June 30. In the May Revision of the annual budget, the Mayor may propose to budget any projected excess equity as a contingency to fund the General Fund Reserves, Risk Management Reserves or for a priority one-time capital need. The transfer would occur after the fiscal year close is completed and the budgeted Excess Equity amount is determined to be available in fund balance above the 14% General Fund reserves.

***City Charter***

City Charter Section 91 requires the City to create and maintain a “General Reserve Fund” to meet the cash obligations of the City for the first four months, or other necessary periods of each fiscal year prior to the collection of taxes. It further stipulates the fund may be expended only in the event of a public emergency by the affirmative vote of two-thirds of the City Council. This requirement is met through the City’s pooled investment fund and when necessary cash borrowing through the sale of Tax and Revenue Anticipation Notes.

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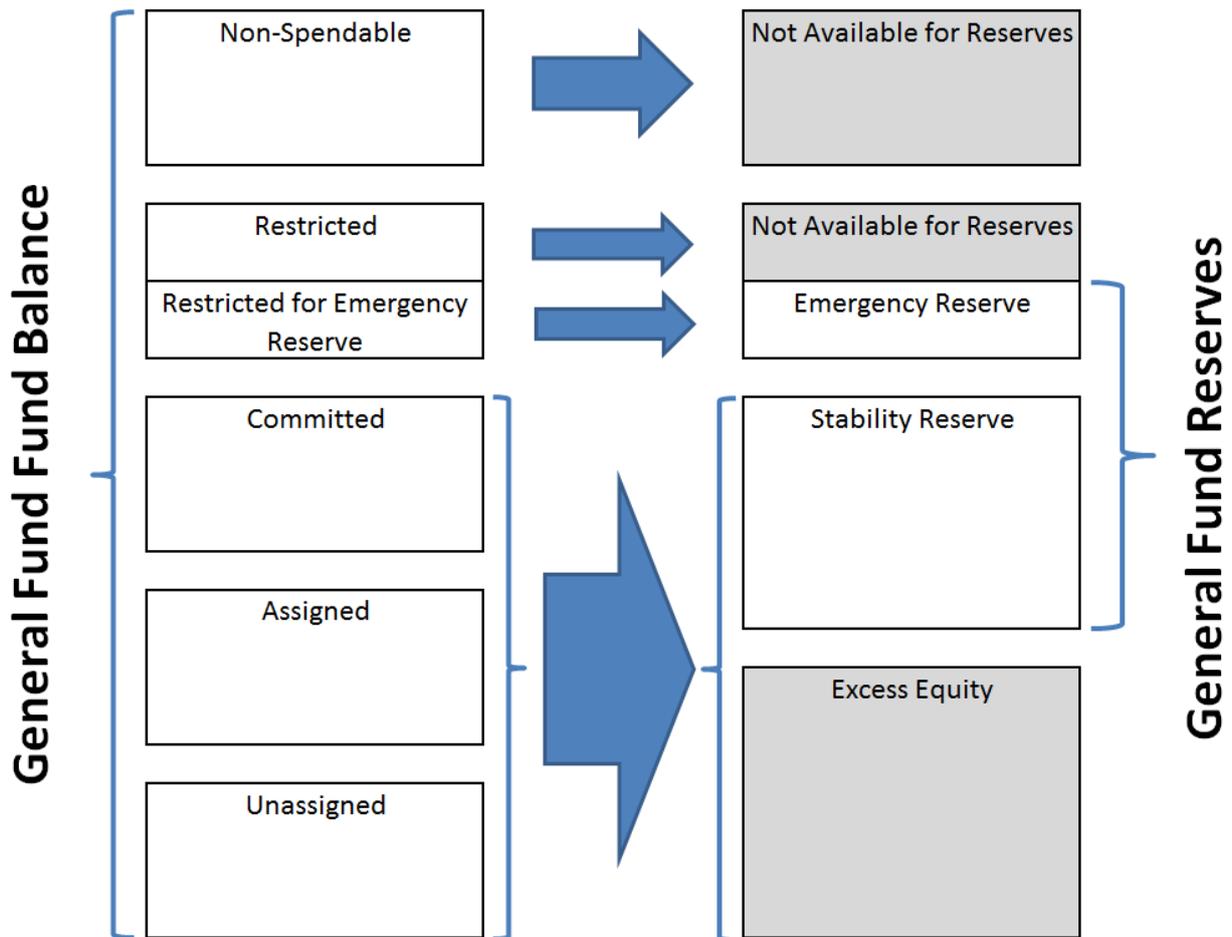
<sup>1</sup> For purposes of this policy, target reserve balances are based on operating revenues as presented in the General Fund Budgetary Schedule of Revenues, Expenditures and Changes in Fund Balance in the Required Supplementary Information section of the Comprehensive Annual Financial Report. These revenues are from recurring revenue sources that support operations, and exclude other financing sources.

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*Summary*

Total General Fund Reserves will be based on, and reconciled to, the General Fund fund balance. The sum of the Emergency Reserve, Stability Reserve, and amounts determined to be Excess Equity shall equal the sum of unrestricted fund balance and amounts restricted for the purpose of maintaining the Emergency Reserve.



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**Risk Management Reserve Policy:**

The Public Liability, Workers' Compensation, and Long-Term Disability Funds provide funding sources for certain claims made against the City. The Public Liability Fund is funded by the General Fund to support claims arising from real or alleged acts on the part of the City, including claims for bodily injury, property damage, inverse condemnation, false arrest, and errors and omissions. The Workers' Compensation Fund is a citywide fund that covers medical and disability costs for industrial injury claims, while the Long-Term Disability Fund provides non-industrially disabled City employees with income and flexible benefits coverage. For purposes of this policy, cash on hand is used to identify the projected reserve balance.

***Public Liability Fund Reserve***

The City will maintain reserves equal to 50% of the value of outstanding public liability claims. This reserve level recognizes that not all claims will be due and payable at one point in time and that not all claims will be awarded, yet there may be more than one large claim that could require an immediate payment. A smoothing methodology using the annual actuarial liability valuations for the three most recent fiscal years will be used to determine the value of outstanding public liability claims for purposes of calculating the reserve level. The average value of the annual actuarial liability is \$96.5 million, based on fiscal years 2011 through 2013. The target is to reach the 50% reserve level by fiscal year 2019, which requires that approximately \$3.2 million be contributed annually from the General Fund to the Public Liability Fund Reserve as set forth in the following schedule:

**Public Liability Fund Reserves Targets**

<i>Target Date</i>	<i>Target Contribution (In Millions)</i>	<i>Projected Reserve Balance (In Millions)</i>	<i>Balance as a Percentage of Total Outstanding Actuarial Liability<sup>1</sup></i>
June 30, 2013	\$ 33.1 <sup>2</sup>	\$ 50.2 <sup>3</sup>	52%
June 30, 2014	(\$18.0) <sup>4</sup>	\$ 32.2	33%
June 30, 2015	\$ 3.2	\$ 35.4	37%
June 30, 2016	\$ 3.2	\$ 38.6	40%
June 30, 2017	\$ 3.2	\$ 41.8	43%
June 30, 2018	\$ 3.2	\$ 45.0	47%
June 30, 2019	\$ 3.2	\$ 48.3	50%

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- <sup>1</sup> Based on the average value of the annual actuarial liability for the three fiscal years 2011 through 2013, or \$96.5 million.
- <sup>2</sup> In addition to the transfer in for the annual reserve contribution of \$6.1 million, includes a transfer in of \$27 million related to the SDG&E settlement.
- <sup>3</sup> Actual audited amount.
- <sup>4</sup> Includes a transfer out of \$16.3 million SDG&E settlement distribution to the General Fund and Enterprise Funds; a transfer in of \$4.7 million claim recovery; a transfer out of \$6.5 million related to the San Diego Bay Clean Up; and a transfer in of \$0.1 million for the annual reserve contribution.

The General Fund contribution to the Public Liability Fund Reserve will be reassessed every two years and incorporated into the budget process in order to ensure that the targeted goal is met in a manner that is balanced with other budget priorities.

***Workers' Compensation Fund Reserve***

The City will maintain reserves equal to 25% of the value of the outstanding claims. A smoothing methodology using the annual actuarial liability valuations for the three most recent fiscal years will be used to determine the value of outstanding claims for purposes of calculating the reserve level. The average value of the annual actuarial liability is \$172.2 million, based on the fiscal years 2011 through 2013. The target will be reached in fiscal year 2014 as set forth in the following schedule:

**Workers' Compensation Fund Reserve Targets**

<i>Target Date</i>	<i>Target Contribution (In Millions)</i>	<i>Projected Reserve Balance (In Millions)</i>	<i>Balance as a Percentage of Total Outstanding Actuarial Liability<sup>1</sup></i>
June 30, 2013	\$7.9	\$ 39.8 <sup>2</sup>	23%
June 30, 2014	\$3.2	\$ 43.0	25%

- <sup>1</sup> Based on the average value of the annual actuarial liability for the three fiscal years 2011 through 2013, or \$172.2 million.
- <sup>2</sup> Actual audited amount.

The contribution to the Workers' Compensation Fund Reserve will be reassessed every two years and incorporated into the budget process in order to ensure that the targeted goal is met in a manner that is balanced with other budget priorities.

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***Long-Term Disability Fund Reserve***

In fiscal year 2013, the balance in the Long-Term Disability (LTD) Fund was \$11.9 million. A smoothing methodology using the annual actuarial liability valuations for the three most recent fiscal years will be used to determine the value of outstanding claims for purposes of calculating the reserve level. The reserve target for this fund is \$17 million and is expected to be achieved by fiscal year 2016. The City will contribute approximately \$1.6 million in fiscal years 2015 and 2016, as shown in the schedule below. The target reserve balance will be maintained to support the feasibility of purchasing an insurance policy to cover this benefit as an alternative to the current practice of self-insurance.

**Long-Term Disability Fund Reserve Targets**

<b><i>Target Date</i></b>	<b><i>Target Contribution (In Millions)</i></b>	<b><i>Projected Reserve Balance (In Millions)</i></b>	<b><i>Balance as a Percentage of Total Outstanding Actuarial Liability<sup>1</sup></i></b>
June 30, 2013	\$ 3.8	\$11.9 <sup>2</sup>	70%
June 30, 2014	\$1.9	\$ 13.8	81%
June 30, 2015	\$1.6	\$15.4	91%
June 30, 2016	\$1.6	\$17.0	100%

<sup>1</sup> Based on the average value of the annual actuarial liability for the three fiscal years 2011 through 2013, or \$17 million.

<sup>2</sup> Actual audited amount.

**Development Services Enterprise Fund Reserve Policy:**

The Development Services Fund accounts for the City's development review and inspection services, which are funded directly by fees and charges paid by Development Services' customers. The fund is intended to be self-supporting.

**Operating Reserve**

The Operating Reserve is intended to provide financial stability during economic cycles and provide business continuity when significant natural or manmade disasters occur. The reserve may be used to meet current expenditures following an unanticipated decline in workload resulting in decreased revenues.

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The use of funds is for unanticipated emergency situations resulting from loss of revenue and would include major incidents such as an earthquake or wild fires. Revenue generating work, such as permitting or land use may be interrupted; however, downsizing staff may not be prudent as construction will commence or increase once damage assessments are completed. The reserve is not intended to maintain staffing levels during lengthy economic recession; and based on forecasted activity it may be used to maintain core services during relatively short downturn periods. The reserve will be replenished to previous levels at the earliest opportunity after revenues have improved and stabilized to cover on-going operating expenses. The Chief Financial Officer/Chief Operating Officer will be responsible for approving the use of the reserve for unanticipated operating expenses.

The reserve is based on annual operating budget expenditures for the fiscal year. The target reserve level for the operating reserve is 7% - 15% of operating expenses, or a target of 60 days of operating reserves once the 15% is obtained. Expenditures in Development Services are a better indicator of operational needs to use as a basis to develop a reserve that supports continuity of business. Revenues can be significantly impacted by changes in the economy and could potentially cause too much volatility in the reserve levels from year to year. The 7% target reserve is expected to be reached by Fiscal Year 2016, and the maximum reserve level of 15% by Fiscal Year 2022. The target reserve amount will be assessed on an annual basis using the most recent three years of audited actual expenditures.

***Development Services Fund Reserve Targets***

<b>Target Date</b>	<b>Target (% of Operating Expenses)</b>
June 30, 2014	4.50%
June 30, 2015	5.75%
June 30, 2016	7.00%
June 30, 2017	8.25%
June 30, 2018	9.50%
June 30, 2019	10.75%
June 30, 2020	12.00%
June 30, 2021	13.50%
June 30, 2022	15.00%

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**Water Enterprise Fund Reserve Policy:**

The Water Enterprise Fund accounts for specific services funded directly by fees and charges to City water customers. The fund is intended to be self-supporting.

***Emergency Operating Reserve***

The Emergency Operating Reserve is intended to be used in the event of a catastrophe that prevents the utility from operating in its normal course of business. The reserve level is defined as the number of days of operation the reserve could support in the event of a major disruption to the Water system, and shall be calculated based on the annual operating budget for the fiscal year, less the budgeted operating contingency and the budget for water purchases and debt service (including State Revolving Fund loan repayments). The Emergency Operating Reserve target shall be equivalent to 70 days of operations. This reserve level of 70 days recognizes that the Water Enterprise Fund has a large diversified customer base, a steady and reliable demand for services, and other reserves available for specific needs.

Use of the Emergency Operating Reserve is restricted to emergency situations, and City Council approval is required to appropriate these reserves. Any request to utilize the Emergency Operating Reserve will include a plan and timeline for replenishment, which may be in conjunction with the City Council authorization of a future Cost of Service Study and rate adjustment.

***Emergency Capital Reserve***

The Emergency Capital Reserve is intended to be used for emergency capital needs. The reserve is budgeted annually at \$5.0 million in the Capital Improvements Budget. If the reserve is used to fund unforeseen emergency conditions resulting in the need to immediately repair or replace existing assets, approval from the Chief Financial Officer or the Chief Operating Officer is required.

***Rate Stabilization Fund (RSF) Reserve***

This fund was established and is maintained pursuant to the legal bond documents for the outstanding water system revenue bonds.<sup>1</sup> Transfers in and out of this fund serve as a revolving mechanism to mitigate significant fluctuations in the water rates for the system operations and maintain stable debt service coverage ratios for the outstanding water revenue bonds. The permitted uses of the RSF are limited to the operations and maintenance costs of the water system.

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<sup>1</sup> Section 6.08 of the Amended and Restated Master Installment Purchase Agreement (“Water MIPA”) dated January 1, 2009.

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This policy establishes a baseline target for the RSF in an amount equal to 5% of the prior fiscal year water system total operating revenue.<sup>1</sup> The funding level in the RSF can go up or down depending on the year-to-year changes in the Water Fund's operating revenues and expenditures. The RSF will be treated as a coverage stabilization tool enabling transfers into and out of the RSF, as necessary by the Chief Financial Officer, upon recommendation of the Public Utilities Department. Transfers may be made into the RSF, increasing the balance above the 5% baseline if the water system has excess net system revenues<sup>2</sup> in any given fiscal year. In contrast, if the water system is anticipated to experience weak net system revenues in any given fiscal year, funds can be drawn down from the RSF to provide necessary revenue to cover current year operations and maintenance costs.

If the RSF goes below the baseline amount of 5% of the prior fiscal year water system total operating revenue, it will be replenished to the target level from any surplus net system revenue in the next fiscal year or in conjunction with the City Council authorization of a future Cost of Service Study and rate adjustments.

### ***Secondary Purchase Reserve***

This reserve is established to purchase additional water supply in case of a major drought or unforeseen emergency that diminishes the City's normal supply. The size of the reserve is equal to 6% of the annual water purchase budget (including commodity charge and fixed costs). City Council action is required in order to appropriate these reserves.

Any request to utilize the Secondary Purchase Reserve will include a plan and timeline for replenishment, which may be in conjunction with the City Council authorization of a future Cost of Service Study and rate adjustment.

### **Sewer Enterprise Fund Reserve Policy:**

The Sewer Enterprise Fund accounts for specific services funded directly by fees and charges to City sewer customers. The fund is intended to be self-supporting.

### ***Emergency Operating Reserve***

The Emergency Operating Reserve is intended to be used in the event of a catastrophe that prevents the utility from operating in its normal course of business. The reserve level is defined as the number of days of operation the reserve could support in the event of a major disruption to Sewer system, and shall be calculated based on the annual operating budget for the fiscal year, less the budgeted operating contingency and the budget for debt service (including State Revolving Fund loan repayments). The Emergency Operating Reserve target shall be equivalent to 70 days of operations. Any reserves provided by the Participating Agencies for their proportionate share of the Metropolitan Sewer System shall count toward the 70 day target. This reserve level target of 70 days recognizes that the Sewer Enterprise Fund has a large diversified customer base, a steady and reliable demand for services, and other reserves available for specific needs.

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<sup>1</sup> Total Operating Revenue as reported in the CAFR - Proprietary Funds Statement of Revenues, Expenses, and Changes in Fund Net Assets.

<sup>2</sup> Operating system revenues less operating system expenses, as defined in the Water MIPA.

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Use of the Emergency Operating Reserve is restricted to emergency situations, and City Council approval is required to appropriate these reserves. Any request to utilize the Emergency Operating Reserve will include a plan and timeline for replenishment, which may be in conjunction with the City Council authorization of a future Cost of Service Study and rate adjustment.

***Emergency Capital Reserve***

The Emergency Capital Reserve is intended to be used for emergency capital needs. The reserve is budgeted annually at \$5.0 million in the Capital Improvements Budget. If the reserve is used to fund unforeseen emergency conditions resulting in the need to immediately repair or replace existing assets, approval from the Chief Financial Officer or the Chief Operating Officer is required.

***Rate Stabilization Fund (RSF) Reserve***

This fund was established and is maintained pursuant to the legal bond documents for the outstanding wastewater system revenue bonds.<sup>1</sup> Transfers in and out of this fund serve as a revolving mechanism to significant potential fluctuations in the wastewater rates for the system operations and maintain stable debt service coverage ratios for the outstanding wastewater revenue bonds. The permitted uses of the RSF are limited to the operations and maintenance costs of the wastewater system.

This policy establishes a baseline target for the RSF in an amount equal to 5% of the prior fiscal year wastewater system total operating revenue.<sup>2</sup> The funding level in the RSF can go up or down depending on the year to year changes in the Wastewater Fund's operating revenues and expenditures. The RSF will be treated as a coverage stabilization tool enabling transfers into and out of the RSF, as necessary by the Chief Financial Officer, upon recommendation of the Public Utilities Department.

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<sup>1</sup> Section 6.08 of the Master Installment Purchase Agreement ("Wastewater MIPA") dated September 1, 1993.

<sup>2</sup> Total Operating Revenue as reported in the CAFR - Proprietary Funds Statement of Revenues, Expenses, and Changes in Fund Net Assets.

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Transfers may be made into the RSF, increasing the balance above the 5% baseline, if the wastewater system has excess net system revenues<sup>1</sup> in any given fiscal year. In contrast, if the wastewater system is anticipated to experience weak net system revenues in any given fiscal year, funds can be drawn down from the RSF to provide necessary revenue to cover current year operations and maintenance costs.

If the RSF goes below the baseline amount of 5% of the prior fiscal year wastewater system total operating revenue, it will be replenished to the target level from any surplus net system revenue in the next fiscal year or in conjunction with the City Council authorization of a future Cost of Service Study and rate adjustments.

**Refuse Disposal and Recycling Enterprise Funds Reserve Policy:**

The Refuse Disposal Enterprise Fund was established to separate tipping fee revenues from the General Fund. The tip fees support active and inactive landfill operations, solid waste code enforcement, commercial and industrial recycling programs, community cleanups and abatements, and collection and maintenance of street litter containers in business districts and are levied on landfill users, including the City of San Diego.

The Recycling Enterprise Fund and Assembly Bill (AB) 939 Fee were established as a result of the Integrated Waste Management Act of 1989. AB 939 authorized local jurisdictions to impose fees based on the types or amounts of solid waste generated to be used to pay actual costs incurred in preparing, adopting, and implementing integrated waste management plans.

***Operating Reserve***

The Operating Reserve is intended to be used in the event that the enterprise fund is prevented from operating in its normal course of business. This reserve may be drawn upon to fund unanticipated emergency expenditures, one-time high priority programs, or revenue shortfalls due to an unexpected economic slowdown or recession. The Chief Operating Officer and/or Chief Financial Officer will have authority to approve expenditures and the reserve must be replenished no later than the subsequent fiscal year.

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<sup>1</sup> Operating system revenues less operating system expenses, as defined in the Wastewater MIPA.

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The Operating Reserve target level is 15% of operating revenues, which equates to approximately two months of operations and reserve balances of approximately \$4.6 million for the Refuse Disposal Fund and \$2.4 million for the Recycling Fund. Revenues are more reflective of the business cycle and a better indicator of operational needs to use as a basis to develop a reserve supporting continuity of business. The Environmental Services Department (ESD) has been allocating \$920,000 annually to the Refuse Disposal Fund Operating Reserve and \$480,000 annually to the Recycling Fund Operating Reserve since Fiscal Year 2011 with the intent to achieve the target levels by Fiscal Year 2015. An annual review of this level will be conducted by the Department to determine adequate funding levels.

In Fiscal Year 2013, the estimated balance was \$2,760,000 (unaudited) for the Refuse Disposal Fund Operating Reserve and \$1,440,000 (unaudited) for the Recycling Fund Operating Reserve. The targeted reserve levels are projected to be achieved by Fiscal Year 2015 based on the following schedules:

**Refuse Disposal Fund Reserve Targets**

<i>Target Date</i>	<i>Refuse Disposal Fund Target Contribution</i>	<i>Projected Reserve Balance</i>	<i>Target (% of Operating Revenues)</i>
June 30, 2014	\$920,000	\$3,680,000	12.00%
June 30, 2015	\$920,000	\$4,600,000	15.00%

**Recycling Fund Reserve Targets**

<i>Target Date</i>	<i>Recycling Fund Target Contribution</i>	<i>Projected Reserve Balance</i>	<i>Target (% of Operating Revenues)</i>
June 30, 2014	\$480,000	\$1,920,000	12.00%
June 30, 2015	\$480,000	\$2,400,000	15.00%

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**Golf Course Enterprise Fund Reserve Policy:**

The City has operated a municipal golf program since 1915. Today, the Golf Division operates three City golf complexes: Balboa Park Golf Course 18-hole and 9-hole courses; Mission Bay 18-hole executive golf course; and Torrey Pines 18-hole North Course and 18-hole South Course. The Golf Course Fund was established in 1991 and operates in a manner similar to a private sector enterprise where the cost of providing services is recovered through user charges. A primary goal of the Golf Course Fund is to ensure that the City operated golf courses are financially self-sufficient and that they do not require financial support from the City's General Fund.

The City will maintain reserves equal to 12% of the most recent three year average of annual audited operating revenues<sup>1</sup>, with the intent to maintain the reserve balance at the same level for future years based on historical requirements. The 12% reserve level is in alignment with GFOA best practices, which recommends enterprise funds maintain a working capital reserve equivalent to a minimum of 45 days, or 12%. This lower level of reserve funding recognizes that the Golf Course Enterprise Fund does not provide essential City services, such as those provided by the Water and Sewer Funds, and has greater flexibility to adjust its operational expenditures in times of emergencies, as well as flexibility to stop operations altogether without impacting public health or safety. The Fund does not require reserves for continuity of business or emergency situations. The reserve is established to ensure financial stability or for one-time large investments in infrastructure or large maintenance efforts. An annual review of this level will be conducted by the Department to determine adequate funding levels and alignment with the Golf Business Plan.

Recommendations to appropriate from the reserve will be brought forward by the Mayor and will require approval by a majority of the City Council. In the event this reserve is reduced below the amount established by this policy, the Mayor shall prepare a plan as promptly as conditions warrant to replenish the reserve balance to the policy level.

Based on the Fiscal Years 2010 through 2013, the average fund balance is \$16.4 million or 94% of the most recent three year average of annual audited operating revenues. The Golf Course Fund Reserve will be reassessed every two years and incorporated into the budget process in order to ensure that the targeted goal is met in a manner that is balanced with other budget priorities.

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<sup>1</sup> Target reserve balances are based on operating revenues as presented in the Budgetary Schedule of Revenues, Expenditures and Changes in Fund Balance in the Required Supplementary Information section of the Comprehensive Annual Financial Report. These revenues are from recurring revenue sources that support operations, and exclude other financing sources.

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COMPLIANCE WITH RESERVE POLICY:

***Reserve Targets***

The Reserve Policy is based on either percentage targets or days of operation; all associated dollar figures represent estimated/projected targets based on either the percentage target or days of operation target set by the Reserve Policy.

***Reporting Use of Reserve Funds***

Any requests for the use of reserves and/or Excess Equity will be accompanied by a current status report of the affected reserve fund and impacts on the future reserve levels. Reserve and Excess Equity status updates will be presented as part of the required Quarterly Budget Monitoring Reports.

***Reserve Expenditures***

Unless specified otherwise in the Reserve Policy, expenditures from any reserve will require a recommendation of the Mayor and City Council action to appropriate the funds. The Mayor may recommend reserve expenditures through the budget process or at regular or special City Council meetings for City Council consideration and approval.

***Replenishment of Reserves***

Should a particular reserve fall below the targeted reserve level set forth in the Reserve Policy, the Mayor will develop a plan to replenish the reserve in a reasonable time-frame. The proposed plan will be presented to the Budget and Government Efficiency Committee and the City Council as part of the subsequent fiscal year budget.

***Deviations from the Reserve Policy***

No deviations from the Reserve Policy will be allowed except as recommended by the Mayor and approved by the City Council. Proposed exceptions to the Reserve Policy will be presented first to the Chief Financial Officer and/or Chief Operating Officer, and then to the Budget and Government Efficiency Committee. After the Budget and Government Efficiency Committee review and recommendation, the proposed exception will be presented to the City Council for action.

***Updates to Reserve Policy***

Any changes, additions, or deletions to the Reserve Policy will be brought forward to the Budget and Government Efficiency Committee for review followed by a presentation to the City Council for formal action.

The Reserve Policy will be reviewed at least biennially and discussed if changes are necessary to ensure the policy is effective, and remains current with general accounting and financial best practice standards, as well as any regulatory changes that may occur over time.

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CONCLUSION:

Maintaining, regularly updating, and adhering to an appropriately constructed reserve policy is a good business practice recognized by the Government Finance Officers Association, and is among the factors considered by credit rating agencies and the investment community when assessing the credit-worthiness of an organization. The City recognizes that the Reserve Policy is a cornerstone of the organization's fiscal health. As such, a biennial review of the Reserve Policy will be performed and any changes to the Reserve Policy will be brought forward for City Council consideration and approval.

GLOSSARY:

***Emergency Capital Reserve***

The Emergency Capital Reserve is intended to be used for emergency capital needs. If the reserve is used to fund unforeseen emergency conditions, approval from the Chief Financial Officer or the Chief Operating Officer is required.

***Emergency Operating Reserves***

The Operating Reserve for an Enterprise Fund, such as the Water Utility or the Wastewater Utility, is intended to be used should a catastrophe occur that prevents the utility from operating according to its normal course of business. Use of the reserve is restricted to emergency situations resulting in loss of revenue and the reserve must be replenished in accordance with the timeframe established in the respective policies. The Chief Operating Officer and/or Chief Financial Officer will have the authority to approve expenditures from the reserve.

***Emergency Reserve***

Certain funds, such as the General Fund, will maintain an Emergency Reserve which may only be used for qualifying emergencies, such as a natural disaster, terrorist attack, or other unforeseen catastrophic event caused by human activity. The Emergency Reserve may be expended only in the event of a public emergency, as determined by a two-thirds vote of the City Council.

***Stability Reserve***

Stability Reserve provides budgetary stabilization and does not serve as an alternative funding source for new programs.

***Excess Equity***

Excess Equity is spendable and unrestricted fund balance that is not otherwise assigned to General Fund Reserves and is available for appropriation. Excess Equity is most commonly a non-recurring source of revenue.

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**CURRENT**

***Rate Stabilization Reserves***

The purpose of Rate Stabilization Reserves is to ensure that legal requirements relating to annual debt service coverage, as set forth in bond indenture agreements, are fulfilled. This type of reserve is more typical for Enterprise Fund financings. The reserve targets are calculated based on the legal requirements outlined in the applicable bond financing documents, and maintained throughout the term of the bonds.

***Secondary Purchase Reserve***

This reserve is established to purchase additional water supply in case of a major drought or unforeseen emergency that diminishes the City's normal supply.

***Working Capital***

Working Capital is current assets (cash or equity in pooled cash and liquid investments and receivables less than 60 days for governmental funds, 90 days for enterprise funds) minus current liabilities (payables) and encumbrances and other restrictions. Working Capital does not include long-term assets such as certain longer term investments, loans receivable, fixed assets, inventory, and equipment. For the purpose of the Reserve Policy and when referring to the General Fund Emergency Reserve, the term "Working Capital" is used synonymously with "Emergency Reserve."

**HISTORY:**

General Fund Reserve Level Council Policy  
Adopted by Resolution R-297182 - 10/15/2002  
Amended by Resolution R-307154 - 12/15/2011  
Amended by Resolution R-308740 - 02/26/2014  
Amended by Resolution R-309101 – 07/17/2014